

## Message Text

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ACTION SS-30

INFO OCT-01 ISO-00 SSO-00 NSCE-00 /031 W

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O 211630Z MAY 74

FM AMEMBASSY KINGSTON

TO SECSTATE WASHDC IMMEDIATE 4770

S E C R E T SECTION 1 OF 2 KINGSTON 1772/1

EXDIS; PASS OPIC

E.O. 11652: GDS

TAGS: EFIN, EMIN, PFOR, JM, US

SUBJ: BAUXITE NEGOTIATIONS SITREP 58: LOOKING BACKWARD AND FORWARD

1. SUMMARY: EXPERIENCE OF THE BAUXITE NEGOTIATIONS TO DATE SUGGESTS THAT THE GOJ HAS BEEN FOLLOWING A COHERENT STRATEGY DESIGNED TO BUILD POLITICAL SUPPORT AT HOME AND AVOID COMPLICATIONS ABROAD WHILE PROGRESSIVELY REALIZING ITS MAJOR OBJECTIVES. THE OUTCOME OF REVENUE DISCUSSIONS AND PM MANLEY'S SPEECH TO PARLIAMENT SUGGESTS THAT THE GOVT MEANT PRETTY MUCH WHAT IT SAID IN ITS POSITION PAPER DATED MAR 15, 1974. BY ITS OWN LIGHTS THE GOJ WAS PROBABLY NEGOTIATING IN GOOD FAITH, BUT LEFT ITSELF VERY LITTLE FLEXIBILITY. FLEXIBILITY WAS FURTHER REDUCED BY THE PM'S PUBLIC UNDERTAKINGS OF MAY 15, BUT SOME SIGNIFICANT ITEMS MAY STILL BE NEGOTIABLE. THROUGHOUT THE GOJ HAS MADE EVERY EFFORT TO AVOID A CONFRONTATION WITH THE USG WHERE THIS WAS POSSIBLE WITHOUT SACRIFICING ITS MAJOR OBJECTIVES. END SUMMARY.

2. HINDSIGHT BEING UNIFORMLY BETTER THAN FORESIGHT, IT IS WORTH EXAMINING THE RECORD OF THE BAUXITE NEGOTIATIONS OVER THE PAST 8 WEEKS AND DRAWING SOME CONCLUSIONS THAT MAY BE HELPFUL IN APPROACHING THE PROBLEMS AND NEGOTIATIONS THAT STILL LIE AHEAD.

3. STRATEGY AND TACTICS: FIRST, IT IS APPARENT THAT THE GOJ HAS BEEN FOLLOWING A CAREFULLY WORKED OUT STRATEGY CONTAINING AT LEAST THE FOLLOWING ELEMENTS:

....A STRONG PREFERENCE FOR RELATIVELY HIGH CURRENT INCOME AND GRADUALLY INCREASING BAUXITE MINING AND EXPORTS, AS OPPOSED TO POSSIBLE

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GREATER FUTURE INCOME AND INCREASED ECONOMIC ACTIVITY AS A

RESULT OF EXPANDING REFINING IN JAMAICA.

....SEPARATION OF REVENUE AND NON-REVENUE ISSUES IN THE BELIEF THAT A MAJOR VICTORY IN THE REVENUE AREA WOULD DISARM OR AT LEAST BLUNT THE OPPOSITION OF THE MIDDLE AND MONIED CLASSES TO MEASURES CONTEMPLATED LATER IN THE NON-REVENUE AREA. FOR THIS REASON THE MOST SENSATIVE ISSUE, ACQUISITION, BY FORCE IF NECESSARY, OF EQU-ITY PARTICIPATON, HAS BEEN LEFT UNTIL LAST.

....WILLINGNESS TO SACRAFICE LEGAL POSITIONS (THE VALIDITY OF CONTRACTS, THE ICSID TREATY AND SO ON) FOR THE SAKE OF ECONOMIC, MORAL, AND POLITICAL GAINS.

....FOLLOWING A NON-IDEOLOGICAL AND NON-POLEMICAL APPROACH DESIGNED TO MINIMIZE OPPOSITION BOTH INSIDE AND OUTSIDE JAMAICA DURNG THE NEGOTIATIONS.

....MAKING A DEDICATED EFFORT TO AVOID A CONFRONTATION WITH THE UNITED STATES GOVERNMENT.

4. THE JAMAICAN STRATEGY HAS PROBABLY BEEN BASED ON THE FOLLOWING ASSUMPTION:

.... THE US AND THE SIX ALUMINUM COMPANIES OPERATING IN JAMAICA CANNOT DO WITHOUT JAMAICAN BAUXITE IN THE SHORT AND MEDIUM TERM (6 TO 8 YEARS).

....BOTH US AND WORLD DEMAND FOR ALUMINUM AND ALUMINUM PRODUCTS WILL CONTINUE TO GROW RAPIDLY OVER THE SHORT AN MEDIUM TERM, THUS ASSURING THE ABILITY OF THE COMPANIES TO PAY A "FAIR" PRICE FOR THEIR BAUXITE AND STILL ENJOY A REASONABLE RETURN ON THEIR INVESTMENT.

....THE INTERNATIONAL BAUXITE ASSOCIATION (IBA) CONSTITUTES A REAL FORCE SERVING PRODUCER INTERESTS AND TO SOME EXTENT PROTECTING JAMAICA FORM THE CONSEQUENCE OF ITS CURRENT ACTIONS. CONVERSELY, THE POSITIONS AND ACTIONS THAT JAMAICA TAKES NOW WILL HAVE A PROFOUND EFFECT ON THE FUTURE VIABILITY OF IBA.

....THE FUTURE BEYOND 6 TO 8 YEARS IS SO CLOUDY THAT PROBABILITIES WITH REGARD TO IT CANNOT BE REGARDED AS SERIOUS FACTORS IN MAKING CALCULATIONS AND DECIDING ACTIONS TODAY.

....PARTLY BECAUSE OF UNCERTAINTY ABOUT THE FUTURE AND PARTLY FOR OTHER REASONS, INCREASED REFINING IS NOT REGARDED AS AN ATTRACTIVE TRADE-OFF FOR INCREASED CURRENT REVENUES AND GREATER BAUXITE MINIG IN THE NEAR AND MEDIUM TERM. THE INCREASED ECONOMIC ACTIVITY DURING THE CONSTRUCTION OF NEW RFINING CAPACITY WOULD BE DESIREABLE, BUT INCREASED REFINING CAPACITY COULD ONLY BE OBTAINED  
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BY MEANS OF SUBSTANTIAL TAX CONCESSIONS THAT WOULD HAVE THE EFFECT OF MORTGAGING THE FUTURE INCOME STREANRM IN ADDITION, THERE IS SOME CONCERN ABOUT POLLUTION FROM ALUMINA REFINING, AND PARTICULARLY THE ACCUMULATION OF RED MUD.

....THE GOJ SHOULD NOT CONCERN ITSELF OVERLY ABOUT FACTORS OR CONDITIONS EXTERNAL TO JAMAICA OR TO ITS OWN CONTROL. EXAMPLES OF SUCH FACTORS ARE RELATIONSHIPS BETWEEN THE COMPANIES; BETWEEN THE COMPANIES AND THE USG; BETWEEN THE COMPANIES AND THE CONSUMER;

BETWEEN ALUMINUM AND COMPETING MATERIALS; AND SO ON. THE GOJ MIGHT ACKNOWLEDGE THAT THESE ARE PROBLEMS, BUT TENDS TO REGARD THEM AS SOMEBODY ELSE'S PROBLEMS AND NOT THEIRS.

....THE USG PROBABLY HAS A STRONG PREFERENCE FOR AVOIDING A POLITICAL CONFRONTATION WITH JAMAICA OVER BAUXITE IF AT ALL POSSIBLE DESPITE ITS OBVIOUS RESPONSIBILITIES AND OBLIGATIONS TO THE BAUXITE COMPANIES AND THE AMERICAN CONSUMER.

5. THE ABOVE ANALYSIS SHEDS SOME LIGHT ON THE OCCASIONALLY CONFUSED HISTORY OF THE NEGOTIATIONS TO DATE. IN VIEW OF THE OUTCOME OF THE REVENUE TALKS, IT IS FAIR TO ASK WHETHER THE GOJ WAS NEGOTIATING IN GOOD FAITH OR WHETHER IT WAS NEGOTIATING STRICTLY FOR THE RECORD WITHOUT EVER INTENDING TO MAKE SUBSTANTIAL CONCESSIONS. INDEED, THIS QUESTION CAME UP FROM TIME TO TIME DURING THE TALKS. IT NOW SEEMS LIKELY THAT THE GOJ HAD SET A REVENUE TARGET OF SOMEWHERE BETWEEN 150 AND 200 MILLION DOLLARS BEFORE THE NEGOTIATIONS BEGAN, AND MAY HAVE ESTABLISHED A FIGURE OF 120-130 MILLION AS THE ABSOLUTE MINIMUM IT WOULD ACCEPT. WHILE THERE WAS CLEARLY SOME POLITICAL CAPITAL TO BE MADE BOTH DOMESTICALLY AND INTERNATIONALLY FROM A ROW WITH THE COMPANIES AND THE USG, JAMAICA'S GENERAL DEVELOPMENT AND COMMERCIAL INTERESTS ARE OBVIOUSLY NOT SERVED BY HAVING SUCH A ROW. HENCE WE CAN ASSUME THAT THE GOJ BEGAN THE NEGOTIATIONS IN GOOD FAITH HOPING THAT THE INITIAL COMPANY OFFER WOULD BE WITHIN SPITTING DISTANCE OF ITS OWN MINIMUM TARGET. IT WAS OBVIOUS

NOTE BY OCT: NOT PASSED OPIC.

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ACTION SS-30

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FM AMEMBASSY KINGSTON

TO SECSTATE WASHDC IMMEDIATE 4771

S E C R E T SECTION 2 OF 2 KINGSTON 1772/2

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THAT THE GOVT WAS DISAPPOINTED WHEN THE INITIAL INDUSTRY OFFER WAS SUBSTANTIALLY LESS THAN HALF WHAT WE BELIEVE TO HAVE BEEN THEIR

MINIMUM, AND INCREASINGLY DISILLUSIONED WHEN A MONTH'S NEGOTIATIONS FAILED TO SHIFT THE INDUSTRY MORE THAN A PERCENTAGE POINT. WHETHER THE NEGOTIATIONS WOULD HAVE GONE DIFFERENTLY IF INDUSTRY HAD BEGUN AT A 4 PERCENT FIGURE WITH A FLEXIBILITY TO NEGOTIATE UP TO SOMEPLACE BETWEEN 5 AND 6 PERCENT IS A MOOT POINT, BUT IT IS CLEAR THAT THEY WERE DOOMED TO FAILURE ALMOST FROM THE START BECAUSE OF THE GREAT DISTANCE BETWEEN THE OPENING POSITIONS OF THE PARTIES. IT SEEMS LIKELY THAT DURING THE SECOND 4 WEEKS OF THE TALKS THE GOJ WAS NEGOTIATING LARGELY FOR THE RECORD AND WITHOUT ANY REAL EXPECTATION OF A FAVORABLE OUTCOME.

....WITHOUT WISHING TO MAKE ANY JUDGEMENT WITH REGARD TO THE COMPANIES APPROACH TO THE TALKS, IT IS OBVIOUS THAT THEY HAD NO COHERENT STRATEGY IN MIND OUTSIDE OF DEPARTING FROM THE STATUS QUO AS LITTLE AS POSSIBLE. IN ADDITION, THEY SEEM TO HAVE MADE THE GRAVE ERROR OF UNDERESTIMATING THEIR OPPONENTS. FOR ONCE THE JAMAICANS HAD DONE THEIR HOMEWORK THOROUGHLY AND KNEW AS MUCH ABOUT MOST OF THE ISSUES AS THE INDUSTRY. IN SOME CASES THE GOJ WAS A JUMP AHEAD OF THE INDUSTRY. IT MAY WELL BE TRUE THAT THE GOVT'S FAITH IN ITS FIGURES AND ANALYSIS IS UNSOUND AND BASED ON FAULTY ASSUMPTIONS, BUT THE JOB DONE BY THE INDUSTRY IN FIGHTING THOSE ASSUMPTIONS OR SHAKING THE GOVT'S FAITH IN ITS FIGURES WAS LESS THAN MASTERFUL.

6. THE ROCKY ROAD AHEAD: AS A RESULT OF PM MANLEY'S SPEECH TO PARLIAMENT ON MAY 15 AND FINANCE MINISTER DAVID COORE'S BUDGET PRESENTATION THE FOLLOWING DAY, THE GOJ HAS LEFT ITSELF VERY  
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LITTLE ROOM TO MANEUVER IN THE FUTURE. THIS WOULD BE A MATTER OF SERIOUS CONCERN EXCEPT THAT IT IS NOW OBVIOUS THAT THE GOVT MEANT PRETTY MUCH WHAT IT SAID IN ITS MAR 15 LIST OF DEMANDS PRESENTED TO THE COMPANIES, AND THAT ITS NOTION OF NEGOTIATIONS IS A JOINT DETERMINATION OVER HOW ITS OBJECTIVES ARE TO BE ACHIEVED, AND NOT AN EXCHANGE OF CONCESSIONS LEADING TO A GENERAL COMPROMISE. THE INDICATION THAT THE GOVT MAY STILL BE WILLING TO DISCUSS REVENUE ISSUES IN THE NEGOTIATIONS STARTING IN JUNE (CUTLER-ROUSSEAU PHONE CONVERSATION MAY 15 AND THE JAMAICAN PRESS RELEASE IN MONTREAL) ARE A BIT MYSTERIOUS IN VIEW OF THE STRONG PUBLIC POSITION TAKEN BY THE PM IN PARLIAMENT. WE TEND TO REGARD THESE REPORTS AS A REAR GUARD ACTION DESIGNED TO SOFTEN THE BLOW AND DIFFUSE THE IMPRESSION OF A COLLISION COURSE. HOWEVER, IT IS JUST POSSIBLE THAT THE GOVT MAY BE WILLING TO MAKE SOME ADJUSTMENTS IN ITS PERCENTAGE FIGURES OR IN OTHER ARRANGEMENTS PROVIDING IT CONTINUES TO GET 180 MILLION PER YEAR OR BETTER. PUBLIC ATTENTION HAS FOCUSED ALMOST ENTIRELY ON THE GROSS FIGURES AND, WHILE THE PERCENTAGE REVENUE FORMULA HAS BEEN VERY IMPORTANT TO THE GOVT, IT HAS GOTTEN LITTLE ATTENTION FROM THE PRESS OF PUBLIC.

7. WHILE THE PM LET THE CAT OUT OF THE BAG ON NON-REVENUE ISSUES (EXCHANGE CONTROLS, LAND OWNERSHIP, CONTROL OF RESERVES,

AND PARTICIPATION) AND O HIS GOVT'S BASIC APPROACH TO EACH, HIS TREATMENT OF THEM WAS UNEVEN. FOR EXAMPLE HIS STATEMENTS ON EXCHANGE CONTROLS AND PARTICIPATION WERE VAGUE AND PERFUNCTORY, MERELY OUTLINING THE GOALS BUT SAYING ALMOST NOTHING ABOUT HOW THEY ARE TO BE ACHIEVED. THIS SUGGESTS THERE MAY BE SOME FLEXIBILITY LEFT ON THESE ISSUES. BY CONTRAST, HIS STATEMENTS ON LAND OWNERSHIP AND CONTROL OF RESERVES WERE EXTREMELY STRONG AND LEFT LITTLE ROOM FOR DISCUSSION OF ANYTHING EXCEPT THE MEANS BY WHICH THEY ARE TO BE REALIZED.

8. IT WOULD BE NOTED THAT NOWHERE IN EITHER THE PM'S SPEECH OR THAT OF THE MINISTER OF FINANCE WAS THE WORD COMPENSATION MENTIONED. THIS COULD BE AN OMINOUS SIGN BUT, BASED ON PAST STATEMENTS AND DECLARATIONS, WE ARE INCLINED TO BELIEVE THAT THE GOJ DOES INTEND TO MAKE COMPENSATION AT SOME LEVEL FOR ASSETS IT TAKES OVER. IF THIS IS THE CASE THE FAILURE TO MENTION COMPENSATION MIGHT MEAN THAT THE PM REGARDS IT AS A MAJOR BARGAINING TOOL AND DOES NOT WISH TO COMMIT HIMSELF ON IT ONE WAY OR THE OTHER TOO EARLY.

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9. IT WAS ALSO NOTICABLE THAT, WHILE SOME LEVEL OF EQUITY PARTICIPATION IN THE INDUSTRY WAS STATED AS A NON-NEGOTIABLE GOAL, THERE WAS NO MENTION OF THE EVENTUAL TARGET NOR OF THE RATE OR MECHANISM BY WHICH EQUITY OWNERSHIP IS TO BE ACQUIRED. IN HIS SPEECH DAVID COORE SAID THAT EQUITY WOULD BE PURCHASED AT LEAST IN PART FROM BAUXITE REVENUES, BUT HE TOO FAILED TO DISCUSS EITHER THE RATE OF ACQUISITION OF EQUITY OR THE EVENTUAL TARGET. WE KNOW FRO EARLIER REPORTS THAT THE GOJ CONSIDERS 51 PERCENT OWNERSHIP TO BE ITS EVENTUAL GOAL, BUT THE VAGUENESS OF ITS STATEMENTS ON THIS ISSUE SUGGESTS THAT THERE MAY BE SOME FLEXIBILITY ON RATE, PRICE, AND MECHANISM BY WHICH THIS GOAL IS EVENTUALLY ACHIEVED.

10. AS IN THE PAST WE CAN EXPECT THAT THE GOJ WILL GO OUT OF ITS WAY TO AVOID A DIRECT CONFRONTATION WITH THE USG. IN PARTICULAR, IT IS LIKELY TO AVOID ACTIONS WHICH WILL AUTOMATICALLY TRIGGER OPIC CLAIMS FOR WHICH THE INDUSTRY MIGHT HAVE A STRONG CASE. IT WILL PROBABLY ALSO CONTINUE ITS CORDIAL CONTACTS WITH USG REPS HERE AND IN WASINGTON AND AVOID EMOTIONAL OR IDEOLOGICAL ATTACKS ON THE USG UNLESS IT GETS THE IMPRESSION THAT THE USG HAS JOINED THE INDUSTRY IN A PUBLIC ATTACK ON JAMAICAN INTERESTS. WHILE USG ACTIONS IN THE PAST TWO MONTHS HAVE NOT BEEN SUCCESSFUL IN PREVENTING THE GOJ FROM TAKING UNILATER ACTION, WE HAVE REASON TO BELIEVE THAT THE GOJ HAS TAKEN USG VIEWS EXTREMELY SERIOUSLY AND, IN FACT, HAS PROBABLY TENDED TO EXAGGERATE THE POSSIBLE CONSEQUENCES OF IGNORING THEM. WE BELIEVE THAT WE SHOULD MAINTAIN OUR INFLUENCE AS MUCH AS POSSIBLE WHILE MAJOR ISSUES REMAIN OUTSTANDING, AND NOT APPEAR TO BE AUTOMATICALLY SIDING WITH THE

COMPANIES WHILE AT THE SAME TIME DOING WHATEVER WE CAN TO PROTECT  
THE CONTINUING INTERESTS OF THE INDUSTRY IN JAMAICA.  
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